

[MSN Home](#) [Hotmail](#) [Web Search](#) [Shopping](#) [Money](#) [People & Chat](#)[Passport](#)
[Sign out](#)

From your desk.

Hotmail® vtsamourtzis@hotmail.com[Inbox](#) [Compose](#) [Addresses](#) [Folders](#) [Options](#)[Calendar](#) [Help](#)**Inbox**

From: Leandros Kontogouris <leandrosk@yahoo.com> [Save Address](#) - [Block Sender](#)
Leandros Kontogouris <aphile@otenet.gr>, Vassilis <vtsamourtzis@hotmail.com>, Eleftherios
To: Georgiou <tedgeorgiou@yahoo.com>, Panayis <peter@suttonlawgroup.com>, Mitsos
<dimitri.spiliotis@insead.fr>, Vouros <avouros@yahoo.com> [Save Address](#)

Subject: comments on timeline and agreement texts**Date:** Tue, 14 Nov 2000 12:57:31 -0800 (PST)[Reply](#)[Reply All](#)[Forward](#)[Delete](#)[Previous](#)[Next](#)[Close](#)

Dear Panayi:

Below follows my response to the timeline document and agreement text that you sent me. It reviews many of the issues discussed and concludes in an offer that is much better than what you had in mind. Its purpose is to make you "super happy" as discussed during our meetings in person. Before getting to it, let me start with an overview of what was discussed during your visit.

During your weekend visit we had an opportunity to discuss many aspects, different forms and scenarios for a between-us cooperation on a number of projects, but primarily the "NtO" project.

The main preoccupation that I expressed was that we should remain fully aligned as a team, that we do not divert and we do not backtrack. For this, I told you that I wanted to find ways to make you feel secure about your stakes irrespectively of the strategic choices we will eventually make. The reasoning was that I would not even consider bringing on anyone that does not seek to promote first and foremost my own interests.

As said before, in essence when I approached you I was not looking for a business partner in formal terms, but mostly for a lawyer for myself, BUT a lawyer that has every incentive to help me. To achieve this, I cannot think of a better incentive scheme other than to directly link his compensation with my own growth in value in the company. As a result, I am willing to offer a stake in the concern in exchange of all major legal work that is involved and I am ready to even pre-determine a stream of stock options to be allocated in different stages as additional compensation.

Hellas Capital Trading is a company that you have set up and which you are able to expeditiously have registered with the SEC. My early understanding (please correct me if I am wrong) is that the reason

why this is necessary and advantageous is because it significantly improves our chances to receive financing. That is, should we decide that we need it, which is to be ultimately determined upon the completion of the Business Plan.

Please note that its draft is not to be ready before the patent is filed, which will then enable us to freely discuss all other options with consultants and other experts and make informed decisions. Therefore, upon reading your timeline and agreement texts, my first reaction is that performing any significant work toward setting up the company is premature. Instead, what we agreed was that during this interim period, after having already gone through our initial "tour d' horizon" during your visit, and in anticipation of the patent progress we will finalize how we wish to work together.

During your visit, you provided us with a preliminary idea of your desired terms and levels of compensation. I provided you with what I would feel more comfortable with giving, and now it remains to see where we can reach common ground. This way, we will settle once and for all our between us "split of the pie" (as opposed to your assisting me to do this with the third parties). As mentioned, a good team is one of full alignment where executives' energy is consumed in protecting company interests vis-a-vis competitors, as opposed to internal politics. If we do not manage to achieve this, our cooperation will have to be based on a pay-per-assignment basis.

Along this line of thought, you mentioned a \$10K fee for liaising and assisting with the patent as another way of working together. In other words, if we successfully filed for the patent and for whatever reason we decided not to go ahead with developing the software, I would owe you \$10K. I must stress that this is not what I wish for, but it is, however, a default plan for working together.

Now, concerning the shell-company, you also explained us in detail its costs and difficulties to set up. As mentioned, you normally aim at providing such companies for \$250K plus a 10% of the stock. Alternatively, you are willing to forego the \$250K for a 20-30% stake. From this follows that the extra 10-20% in the second alternative compared to the first is valued by you at \$250K.

When entering in this discussion with you, I told you I was aiming at a 3-5% equity for all the legal work, as per the going market rate. This could even reach 5-7%, since you are not paid your expenses and you assume the risk of perhaps not receiving anything at the end of the day (if NtO is not patentable and the project never takes off). Furthermore, if you undertook all necessary actions and costs for both the company and the patent my walk away price was a 10%-equity compensation. In this case, you would not only have to forego all payments for setting up the company and your legal supervisory role but also contribute money for the patent search and patent

drafting toward the patent agent, which is not what is happening presently.

Despite this, my intuition has been that there could be agreement at around the 10% provided that you significantly increased what you bring to the table. Indeed, it seems that bearing all costs (including auditor costs) for a company that will be able to report to the SEC soon is an offer that is worth considering seriously.

However, there was expressed skepticism about the purposefulness and appropriateness of starting to trade as early as suggested, as this may in fact dilute our interest too early, and thus in unfavorable terms. In other words, six months from company foundation will be before the company has achieved any significant profitability or market penetration. This creates a number of problems: How will the market makers set the price accurately when we have low (if not zero) revenues? Therefore, why start trading at a low valuation? How will commissions of market makers be paid?

It follows that the timing of when to enter cannot be a rushed decision. Experienced and trusted i-bankers have to advise us very carefully on such matters, which can only happen after the patent is filed, we have a business plan and are able to disclose information

Assuming the Hellas Trading option is favored, you discussed receiving compensation for legal work conducted in the period following the registration with the SEC. This is not acceptable since this very service of yours is the exact reason why equity is offered in the first place. A solution for this however is offered below in the way your equity will be repurchased.

According to the rationale you expressed, you will need some cash inflow to cover your operational costs.

My offered solution to this was to gradually pay you with stock options, which I will be buying back from you. The total value for this is \$250K (i.e. your valuation for the 10-20% mentioned above). These stock options will be tied to milestone events we will be reaching together (such as receiving financing, cementing alliances, development of the software, etc.)

After you receive this initial \$250K, you may sell 7/10 of your, say, 10% equity in pre-defined intervals at a fixed rate of \$500K to the company (i.e., a 7% at maximum, assuming we agree on a 10% stake at the beginning). However, you will be obliged to retain the remaining 3/10 of your equity (3%) for a much longer period of time, which secures our mutual long-term vision and alignment.

According to such a scenario, the payments you will receive for your sold 7%, as well as the aforementioned 10-20%, I want to receive from those allies and investors that will want participate in the

company with equity. In other words, I will buy it from you and sell it to them for profit, however avoiding further dilution for all of us. Of course, should we need to bring on a VC the dilution must affect all of us equally.

As you may understand, the above is a generous offer as it a priori satisfies all your requirements. You receive \$250K and approximately 10% equity with a very high upside, which needs to be controlled while continuing to meet your needs of cash inflow. These may be given in exchange of:

- (a) all your legal work (legal consulting throughout your term in the Board, contributing the man-hours toward all legal tasks of the firm - but not incurred costs for fees and payments to third parties)
- (b) contributing the Hellas Capital Trading vehicle
- (c) contributing in the costs for obtaining the patent (assume part of the fees to the patent agent)

Below follows an indicative scenario in steps illustrating the compensation of your side (let's call it Moulinos Group - "MG"). The scenario below assumes no dilution which must be everyone's goal. In case of dilution the percentages that follow will be adjusted accordingly and as requested MG will have a representative in the board of directors who will be compensated at the same rate as the other members of the board:

Milestones

1. Patent is filed (prerequisite)

2. Company is formed

Leandros Group (LG) 90% Moulinos Group (MG) 10%

3. Company receives its first financing

LG 85% MG 15% (provided that the buy-back option of LG is not exercised for the additional 5% of MG)

Otherwise,

LG 90% MG 10%+\$63K (1/4 of the \$250K)

4. Company starts operations and receives first revenues

LG 80% MG 20% (provided that the buy-back option of LG is not exercised for the additional 10% of MG on top of the initial 10% of MG)

5. Company starts trading (OTC)

LG 75% MG 25% (provided that the buy-back option of LG is not exercised for the additional 15% of MG)

6. Company's IPO

LG 70% MG 30% (provided that the buy-back option of LG is not exercised for the additional 20% of MG)

In other words MG will gradually acquire an additional 20% that LG retains the right to buy back as per the terms of "Buy-Back option A" section that is described below)

Additionally, from the initial 10% LG retains the right to buy back 7/10 of it (7%) (see "Buy-Back

option B" section below).

MG has the obligation to keep the remaining 3/10 (3%) for the first 5 years of operations (see "Remaining 3%" below).

Buy-back option A for the additional 20%
The company can buy back the 20% share for \$250K independently from the value of the shares. If the company chooses not to do so, then MG may keep this additional 20%. The company keeps the right to buy back the above share to the agreed price within the next 2 years. After 2 years, the \$250K sum will be adjusted to include the going interest as reflected in the 10-year US-government bond.

Buy-back option B for the 7% of the initial 10%
The company may buy back the 7% share for \$500K under the same conditions with Buy-back option A.

Remaining 3%

Our company valuation should be as high as \$8B (see attached spreadsheet). According to such a scenario, 3% will be worth \$240M. This, however, may be captured in its entirety after 5 years.

In summary, the overall compensation of MG will be:
\$250K + \$500K + \$240M + paid dividends + compensation to members of the Board of Directors
(as opposed to the mere \$2M proposed by MG)

A natural reaction to the above proposal should be why give more, when less is requested. The answer is simple and concerns the issue of alignment and long-term view. I am willing to provide a very high upside, if risks are equally shared and we have the same goal. That is, to only bring the company public in advantageous terms and to continue working for maximizing the long-term growth of the company.

Another important difference is that MG will have the obligation to provide the major legal work concerning the company as long as it remains shareholder (secondary legal tasks may be assigned to other law firms if necessary, but the supervisory role remains with MG).

I hope you will deeply appreciate the rationale and generosity of the above proposal, which will allow us to work together through the entire lifetime of the project, as opposed to working on a pay-per-assignment basis. I sincerely hope that you will choose the former over the latter.

I apologize for the long-winded e-mail. I look forward to talking to you tomorrow and hearing your final decision.

Amicably Yours,

Leandros

Do You Yahoo!?
Yahoo! Calendar - Get organized for the holidays!
<http://calendar.yahoo.com/>

- ✉ Attachment: NtOvaluationOPTIMISTIC.xls (35k) -- [View Attachment](#)
- ✉ Attachment: NtOvaluationNORMAL.xls (35k) -- [View Attachment](#)
- ✉ Attachment: comments.doc (64k) -- [View Attachment](#)

Notice: Attachments are automatically scanned for viruses using

[Reply](#)[Reply All](#)[Forward](#)[Delete](#)[Previous](#)[Next](#)[Close](#)

Move To:

[Inbox](#) [Compose](#) [Addresses](#) [Folders](#) [Options](#)

[Calendar](#) [Help](#)

Get notified when you have new Hotmail or when your friends are on-line. Send instant messages. [Click here](#) to get your
FREE download of MSN Messenger Service! Share information about yourself, create your own public profile at
<http://profiles.msn.com>

**Other Links:**

[Buy Music](#)
[Download Music](#)
[Buy Books](#)
[Free Games](#)
[Pharmacy](#)
[More...](#)

Special Features:

[Getting scammed on auto insurance?](#)
[What's HOT and NOT this Fall](#)
[Looking for a new perspective?](#)
[How to get more out of the web](#)
[Add music to your favorite chat!](#)
[More...](#)

© 2000 Microsoft Corporation. All rights reserved. [Terms of Service](#) [Privacy Statement](#)